

# PERAC AUDIT REPORT



## Belmont Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2006



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

September 26, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Belmont Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Sweeney and Carol Niemira who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **I. Cash**

The only checking account appearing on the general ledger is the System's Bank of America account (general ledger account number 1041) from which expenses are paid. A separate checking account at Citizen's Bank is used for the retiree, Board and administrator's payroll. It normally functions with a zero beginning and ending balance each month; a check is written from the Bank of America account to fund each payroll.

Eleven checks issued to a single retiree, all for small amounts mostly under \$10 and totaling just over \$100, remain outstanding from September 2004 through April 2007. Although the administrator has contacted the retiree, the small dollar amount of each check has evidently contributed to the retiree's failure to cash them in a timely manner.

**Recommendation:** Although total cash reported on the general ledger is accurate, sound internal financial control practices would dictate the payroll account be assigned a separate ledger number. This will provide an audit trail for all cash movements and ensure that total cash reported is accurate, should the Citizen's account end the month with something other than a zero balance. It will also help track transfers back to the Bank of America account when a check is voided or otherwise returned from the payroll account.

The retiree whose outstanding checks are stale has recently enrolled in direct deposit. The administrator should contact her to facilitate the voiding of her outstanding manual checks, to be reissued as a direct deposit.

## **Board Response:**

A new cash account has been set up for the payroll, Citizen's Bank.

A letter has been written to the retiree who has not cashed several checks and requested her to do so as soon as possible.

## **2. Investment Fees**

The Board has exceeded its Supplemental Investment Regulation limiting the total amount charged for investment advice and consulting services. In 2006 the total of the investment manager and consulting fees was 10% above the regulation limit. The regulation states in part as follows:

"The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the value of the fund for the first \$5 million; and
- (b) 0.5% of the value of the fund in excess of \$5 million."

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

**Recommendation:** The Board should review the contracts with the investment managers and consultant to evaluate the appropriate level of fees that will ensure consistency with the Board's investment program and statement of objectives.

**Board Response:**

Investment Fees: Attorney James Quirk has requested PERAC to eliminate the supplemental regulation that was approved by PERAC in 1991.

Effective September 20, 2007, PERAC has rescinded this supplemental regulation.

**Administrative Observation**

The previous PERAC audit, for the four-year period ending December 31, 2004, cited a finding that earnings for coaching positions held by active members of the Belmont Retirement System should not be considered regular earnings for retirement. These coaching positions were presumed to consist of duties beyond the employees' normal work schedule, similar to overtime.

We have reconsidered that position. Additional positions are to be considered regular compensation as with dual members. Dual members may opt out of retirement contributions from the lower paying position. Finding number four from the audit referenced above is rescinded.

**FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,	
	2006	2005
<b>Net Assets Available to Pay Benefits:</b>		
Cash	\$405,012	\$468,830
Short Term Investments	306,400	220,443
Fixed Income Securities	0	0
Equities	14,075,405	12,862,924
Pooled Domestic Equity Funds	11,204,973	9,599,480
Pooled International Equity Funds	8,559,691	7,169,282
Pooled Domestic Fixed Income Funds	11,849,566	11,949,106
Pooled International Fixed Income Funds	4,130,029	3,859,126
Pooled Alternative Investment Funds	926,316	729,127
Pooled Real Estate Funds	3,104,910	2,513,411
Pooled Domestic Balanced Funds	2,908,160	2,635,349
PRIT Cash Fund	0	0
PRIT Core Fund	1,353,976	1,165,198
Interest Due and Accrued	2,195	1,430
Accounts Receivable	2,121,425	2,005,395
Accounts Payable	(70,069)	(39,362)
<b>Total</b>	<b><u>\$60,877,988</u></b>	<b><u>\$55,139,738</u></b>
<b>Fund Balances:</b>		
Annuity Savings Fund	\$15,716,256	\$14,447,137
Annuity Reserve Fund	7,051,437	7,403,109
Pension Fund	(2,115,844)	50,664
Military Service Fund	0	0
Expense Fund	0	0
Pension Reserve Fund	40,226,140	33,238,828
<b>Total</b>	<b><u>\$60,877,988</u></b>	<b><u>\$55,139,738</u></b>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance ( 2005)	\$14,020,562	\$7,647,467	(\$3,412,606)	\$0	\$0	\$35,816,224	\$54,071,647
Receipts	1,840,873	224,844	4,324,538	0	531,301	3,101,739	10,023,294
Inter Fund Transfers	(524,403)	485,439	5,718,097	0	0	(5,679,134)	0
Disbursements	(889,895)	(954,641)	(6,579,365)	0	(531,301)	0	(8,955,202)
Ending Balance (2005)	14,447,137	7,403,109	50,664	0	0	33,238,828	55,139,738
Receipts	2,037,078	214,038	4,585,191	0	572,089	6,987,311	14,395,708
Inter Fund Transfers	(408,518)	408,518	0	0	0	0	0
Disbursements	(359,441)	(974,228)	(6,751,699)	0	(572,089)	0	(8,657,458)
Ending Balance (2006)	<u>\$15,716,256</u>	<u>\$7,051,437</u>	<u>(\$2,115,844)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$40,226,140</u>	<u>\$60,877,988</u>

# STATEMENT OF RECEIPTS

		FOR THE PERIOD ENDING DECEMBER 31,	
		2006	2005
<b>Annuity Savings Fund:</b>			
Members Deductions		\$1,667,767	\$1,545,269
Transfers from Other Systems		248,701	140,208
Member Make Up Payments and Re-deposits		35,792	76,782
Member Payments from Rollovers		0	0
Investment Income Credited to Member Accounts		<u>84,819</u>	<u>78,615</u>
Sub Total		<u>2,037,078</u>	<u>1,840,873</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund		<u>214,038</u>	<u>224,844</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems		124,178	126,288
Received from Commonwealth for COLA and Survivor Benefits		222,960	238,912
Pension Fund Appropriation		<u>4,238,053</u>	<u>3,959,338</u>
Sub Total		<u>4,585,191</u>	<u>4,324,538</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service		0	0
Investment Income Credited to the Military Service Fund		<u>0</u>	<u>0</u>
Sub Total		<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation		0	0
Investment Income Credited to the Expense Fund		<u>572,089</u>	<u>531,301</u>
Sub Total		<u>572,089</u>	<u>531,301</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement		0	0
Pension Reserve Appropriation		0	0
Interest Not Refunded		1,900	4,529
Miscellaneous Income		3,689	3,276
Excess Investment Income		<u>6,981,722</u>	<u>3,093,934</u>
Sub Total		<u>6,987,311</u>	<u>3,101,739</u>
<b>Total Receipts</b>		<u>\$14,395,708</u>	<u>\$10,023,294</u>



# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
<b>Annuity Savings Fund:</b>		
Refunds to Members	\$226,718	\$301,923
Transfers to Other Systems	<u>132,723</u>	<u>587,972</u>
Sub Total	<u>359,441</u>	<u>889,895</u>
<b>Annuity Reserve Fund:</b>		
Annuities Paid	973,847	954,641
Option B Refunds	<u>382</u>	<u>0</u>
Sub Total	<u>974,228</u>	<u>954,641</u>
<b>Pension Fund:</b>		
Pensions Paid:		
Regular Pension Payments	5,137,999	5,024,203
Survivorship Payments	513,774	109,893
Ordinary Disability Payments	131,913	117,743
Accidental Disability Payments	765,118	898,013
Accidental Death Payments	69,124	78,827
Section 101 Benefits	0	258,495
3 (8) (c) Reimbursements to Other Systems	133,770	92,191
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>6,751,699</u>	<u>6,579,365</u>
<b>Military Service Fund:</b>		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>		
Board Member Stipend	15,000	15,000
Salaries	75,549	73,348
Legal Expenses	6,198	6,345
Medical Expenses	0	0
Travel Expenses	9,566	14,813
Administrative Expenses	25,480	11,155
Furniture and Equipment	1,569	510
Management Fees	362,784	338,365
Custodial Fees	30,000	28,750
Consultant Fees	37,500	35,000
Service Contracts	4,968	4,516
Fiduciary Insurance	<u>3,475</u>	<u>3,499</u>
Sub Total	<u>572,089</u>	<u>531,301</u>
<b>Total Disbursements</b>	<u><b>\$8,657,458</b></u>	<u><b>\$8,955,202</b></u>

## INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
<b>Investment Income Received From:</b>		
Cash	\$42,338	\$14,281
Short Term Investments	85,957	3,997
Equities	159,825	148,452
Pooled or Mutual Funds	1,330,314	1,455,652
Commission Recapture	0	0
<b>Total Investment Income</b>	<u>1,618,433</u>	<u>1,622,381</u>
<b>Plus:</b>		
Realized Gains	2,065,420	1,083,445
Unrealized Gains	6,692,403	4,971,717
Interest Due and Accrued - Current Year	<u>2,195</u>	<u>1,430</u>
Sub Total	<u>8,760,018</u>	<u>6,056,592</u>
<b>Less:</b>		
Realized Loss	(356,279)	(378,455)
Unrealized Loss	(2,168,072)	(3,371,215)
Interest Due and Accrued - Prior Year	<u>(1,430)</u>	<u>(610)</u>
Sub Total	<u>(2,525,782)</u>	<u>(3,750,279)</u>
<b>Net Investment Income</b>	<u>7,852,669</u>	<u>3,928,693</u>
<b>Income Required:</b>		
Annuity Savings Fund	84,819	78,615
Annuity Reserve Fund	214,038	224,844
Military Service Fund	0	0
Expense Fund	<u>572,089</u>	<u>531,301</u>
<b>Total Income Required</b>	<u>870,946</u>	<u>834,759</u>
Net Investment Income	7,852,669	3,928,693
Less: Total Income Required	<u>870,946</u>	<u>834,759</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$6,981,722</u>	<u>\$3,093,934</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$405,012	0.7%	100%
Short Term	306,400	0.5%	100%
Equities	14,075,405	23.9%	65%
Pooled Domestic Equity Funds	11,204,973	19.0%	65%
Pooled International Equity Funds	8,559,691	14.6%	20%
Pooled Domestic Fixed Income Funds	11,849,566	20.1%	35-80%
Pooled International Fixed Income Funds	4,130,029	7.0%	20%
Pooled Alternative Investment Funds	926,316	1.6%	7.5%
Pooled Real Estate Funds	3,104,910	5.3%	10%
Pooled Domestic Balanced Funds	2,908,160	4.9%	*
PRIT Cash Fund	0	0.0%	100%
PRIT Core Fund	1,353,976	2.3%	100%
<b>Grand Total</b>	<b><u>\$58,824,438</u></b>	<b><u>100.0%</u></b>	

\*Fixed income portion 35-80%, equity portion 65%

For the year ending December 31, 2006, the rate of return for the investments of the Belmont Retirement System was 15.17%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Belmont Retirement System averaged 9.54%. For the twenty-two-year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Belmont Retirement System was 10.42%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Belmont Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

November 17, 2006

21.01(3)(b), (4)(a-c), and (5)

In accordance with Investment Guideline 99-2, the Belmont Retirement System is authorized to modify its international equity management mandate with Julius Baer Asset Management by transferring its assets from the Julius Baer International Equity Strategy Fund to the Julius Baer International Equity Trust Fund. The new fund is a commingled fund specifically structured for the firm's pension fund clients. There is no change in strategy or benchmark, but the new fund offers greater liquidity for clients. It also has broader authorization to employ certain derivatives for hedging and liquidity purposes, consistent with the overall strategy of the Fund. At times, such derivative use may exceed the level envisioned by existing PERAC regulations and guidelines.

October 10, 1996

840 CMR 21.00: Prohibited Investments

(3) Futures Contracts other than as follows:

(c) Futures and options may be employed in the System's commingled international equity and global bond funds in the following two circumstances:

1) Create a synthetic position in an asset class with the goal of replicating the risk/return profile of that asset class, provided that the guidelines for the investment manager allow for such exposures to be created with the underlying assets themselves.

2) Tactically change the exposure of the portfolio to the countries in the investment universe in a prompt and efficient manner.

(d) Any use of other derivative contracts or derivative securities not specifically mentioned herein is prohibited. As emphasis, it is noted that the following two uses of derivatives are prohibited:

1) Leverage. Derivatives shall not be used to magnify exposure to an asset, asset class, interest rate, or other financial variable beyond that which would be allowed by a portfolio's investment guidelines if derivatives were not used, or otherwise leverage the portfolio in any other way.

2) Speculation. Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable, unless such exposures would be allowed by a portfolio's investment guidelines if created with non-derivative securities.

November 2, 1995

840 CMR 21.00: Prohibited Investments

(3) Futures Contracts other than as follows:

(a) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERA for international investments.

(b) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio to a maximum of fifty percent (50%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited. (AMENDED October 10, 1996)

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

October 26, 1995

20.03(4)

International equity and fixed income investments shall not exceed 20% of the total portfolio valued at market.

November 19, 1992

20.04(6)

Foreign corporations and obligations issued and guaranteed by foreign governments.

20.07(5)

Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States or traded in foreign stock markets.

July 29, 1992

18.02(4)

*Rate of Return.* A statement of the rate of return objective for the entire portfolio which shall be a real rate of return (after inflation) of at least 4% per year.

18.02(5)

*Risk.* Total portfolio risk exposure should reasonably be centered in the midrange (25th to 75th percentile) of comparable Public Funds. Risk-adjusted returns are expected to consistently rank in the top half of comparable Public Funds.

December 20, 1991

16.02(3)

The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the value of the fund for the first \$5 million; and
- (b) 0.5% of the value of the fund in excess of \$5 million.

16.02(4)

The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

December 21, 1987

20.04(6)

American Depositary Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that any such investments not exceed 5% of the total book value of equity investments.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

March 4, 1987

20.03(1)

Equity investments shall not exceed 65% of the total book value of the portfolio at the time of purchase.

20.03(2)

At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Belmont Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2



## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$667.92 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Belmont Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

February 11, 2004

The threshold for eligibility for membership in the Belmont, Mass. Contributory Retirement System shall be a minimum of twenty (20) hours per week of employment in a position, or combined positions, of the Town of Belmont covered by the Retirement System. This Rule is to become effective for all new employees of the Town of Belmont on and after the date of the approval of said local Rule by the Public Employee Retirement Administration Commission.

December 27, 1984

Pursuant to the provisions of Chapter 32 section 3(2)(d) in all cases involving part-time, provisional, temporary, temporary provisional, seasonal or intermittent employment or service of any employee of the Town, no person holding a position requiring less than 15 hours of regular employment each week for less than 52 weeks of any calendar year shall be eligible for membership, and the Retirement Board shall have full jurisdiction to make such determination as to eligibility. (AMENDED February 11, 2004)

June 1, 2004

The Board has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Barbara Hagg

Appointed Member: Peter Palandjian                      Term Expires: 4/1/08

Elected Member: Rosario Sacco, Chairman              Term Expires: 6/30/10

Elected Member: Walter Wellman                      Term Expires: 12/27/08

Appointed Member: Thomas Gibson                      Term Expires: 2/6/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	\$50,000,000 Fiduciary and
Ex-officio Member:	)	\$1,000,000 Fidelity policies through
Elected Member:	)	MACRS (Travelers Casualty and
Appointed Member:	)	Surety Co. of America, AIG, and
Staff Employee:	)	ARCH)



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2006.

The actuarial liability for active members was	\$37,950,066
The actuarial liability for inactive members was	570,004
The actuarial liability for retired members was	<u>63,139,882</u>
The total actuarial liability was	101,659,952
System assets as of that date were	<u>53,736,253</u>
The unfunded actuarial liability was	<u>\$47,923,699</u>
 The ratio of system's assets to total actuarial liability was	 52.9%
As of that date the total covered employee payroll was	\$17,493,684

The normal cost for employees on that date was 8.9% of payroll

The normal cost for the employer was 4.7% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.25% per annum
Rate of Salary Increase:	varies by group and service

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2006	\$53,736,253	\$101,659,952	\$47,923,699	52.9%	\$17,493,684	277.0%
1/1/2004	\$53,364,538	\$94,947,822	\$41,583,284	56.2%	\$16,082,587	260.3%
1/1/2002	\$52,838,407	\$87,176,074	\$34,337,667	60.6%	\$14,536,443	237.2%
1/1/2000	\$49,941,824	\$70,890,071	\$20,948,247	70.4%	\$13,140,025	159.4%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Retirement in Past Years</b>										
Superannuation	9	12	18	10	12	17	20	20	9	8
Ordinary Disability	0	0	0	1	0	0	0	0	0	1
Accidental Disability	2	1	1	5	0	0	1	1	0	0
<b>Total Retirements</b>	11	13	19	16	12	17	21	21	9	9
Total Retirees, Beneficiaries and Survivors	302	304	309	314	326	321	335	335	357	355
Total Active Members	394	432	451	430	454	444	452	417	422	446
<b>Pension Payments</b>										
Superannuation	\$2,815,551	\$2,797,845	\$2,905,597	\$3,245,304	\$3,485,466	\$3,613,453	\$4,050,152	\$4,613,184	\$5,024,203	\$5,137,999
Survivor/Beneficiary Payments	412,586	437,301	450,153	464,197	476,146	519,422	545,390	546,442	109,893	513,774
Ordinary Disability	88,015	89,032	90,391	112,848	117,445	103,397	112,703	115,223	117,743	131,913
Accidental Disability	498,196	488,130	495,545	569,802	642,396	651,200	677,314	724,640	898,013	765,118
Other	166,285	179,562	186,402	167,924	169,301	166,727	171,168	170,629	429,513	202,894
<b>Total Payments for Year</b>	<u>\$3,980,633</u>	<u>\$3,991,870</u>	<u>\$4,128,088</u>	<u>\$4,560,076</u>	<u>\$4,890,753</u>	<u>\$5,054,199</u>	<u>\$5,556,727</u>	<u>\$6,170,118</u>	<u>\$6,579,365</u>	<u>\$6,751,699</u>

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